



PERFECT FRY CORPORATION

Report 2003



CORPORATE PROFILE

Perfect Fry Corporation is a publicly-traded company headquartered in Calgary, Alberta, Canada. Its common shares are listed for trading on the TSX Venture Exchange under the symbol PNM.

Founded in 1985, the Company manufactures and markets state-of-the-art counter-top deep fryers, accessories and other peripherals. Perfect Fry's markets now extend around the world and encompass the fast-food retail industry specializing in popular, tasty deep fried foods at snack bars, food kiosks, sport & recreation outlets, concession stands and convenience stores.

The Perfect Fryer is highly efficient, compact and requires no external ventilation systems. It incorporates the most advanced built-in air filtration and fire prevention systems available in the industry. Sales of the Perfect Fryer and its complementary products continue to grow rapidly in North and South America, Europe, Australia, Asia, and the Middle East.

The two key drivers of Perfect Fry's continuing successful market penetration are its growing international network of independent distributors and dealers, and the support they receive from the Company's innovative and continuously enriched marketing and sales promotion infrastructure.

Perfect Fry offers investors these attractive ingredients for equity growth:

- An effective and experienced management team dedicated to growing the Company and building value
- A creative and multi-discipline team of employees who are encouraged to 'think outside the box'
- A strong financial structure: ready access to capital to finance growth, high credit rating, little debt, and sophisticated financial reporting and inventory tracking systems
- A commitment to customer service that is second to none in the industry
- State-of-the-art products serving a strong consumer demand – patented and continuously updated by research and development
- A rapidly expanding distribution network supported by a strong marketing and sales infrastructure, food-industry alliances and incentive programs
- A production, marketing and distribution infrastructure that is continuously expanding a profitable niche in the global fast food industry
- Recognition of Perfect Fry's product leadership and corporate integrity which have resulted in the Company becoming an advisor to government on product standards and testing requirements.

ANNUAL MEETING

Perfect Fry Corporation's Annual Meeting for fiscal year 2002: April 19, 2004 at 9:00 a.m. at 3700, 30th Floor, 237 - 4 Ave SW, Calgary, Alberta, Canada.

STOCK EXCHANGE LISTING

Perfect Fry Corporation, symbol PNM, is listed on the TSX Venture Exchange.
USA 12G3-2 (b) Exemption Number 82-1609.

2003 HIGHLIGHTS

- In Fiscal 2003, Perfect Fry completed another successful year, with net earnings of \$324,318 or three cents a share. This compares with net earnings in Fiscal 2002 of \$366,784 or four cents a share.
- Revenue in Fiscal 2003 increased to \$3.69 million. This record compares with the previous record revenue of approximately \$3.59 million in Fiscal 2002 and \$2.50 million in Fiscal 2001.
- While the recent shift in currency exchange rates between Canada and the United States adversely affected net earnings, increased revenue helped to offset this. The U.S. is Perfect Fry's largest single market, accounting for approximately two-thirds of sales.
- During the year, Perfect Fry completed the acquisition of a building for \$1.08 million to house the Company's manufacturing facilities and head office. Relocation to the new building was completed in early 2004.
- Also during Fiscal 2003, the Company introduced a new model of the Perfect Fryer designed specifically to address the requirements of offshore international markets.
- Perfect Fry continued its vigorous research and development program during the year. The Company's R&D makes it possible to convert market opportunities that Perfect Fry has identified into products such as the countertop heated display case and the offshore model of the Perfect Fryer.
- The Company continued its aggressive sales and sales support initiatives began in Fiscal 2002. During the year, Perfect Fry developed new relationships and strengthened its existing relationships with various sectors of the food industry.
- In Fiscal 2003 Perfect Fry again demonstrated its ongoing commitment to the development of both its current markets and new markets around the world.



In October 2003, Perfect Fry exhibited at the ANUGA 2003 trade show in Cologne, Germany as part of the Canadian pavilion.

Letter from the Chairman and President

We are pleased to report that Fiscal 2003 was a year of continued financial success and business accomplishment for Perfect Fry. The Company set its third consecutive record for revenue and experienced another profitable year, while also achieving these important goals:

- the development of additional new international markets,
- the further enhancement of our sales support programs with stronger food industry relationships offering additional new customer incentives,
- introduction of one new product and preparations to introduce two others,
- the acquisition and renovation of a building to house Perfect Fry's production facilities and headquarters.

During the year, the Company experienced an increase in the sales of Perfect Fryers and ancillary products resulting in total revenue of \$3.69 million, almost 3% more than the previous year, leading the Company to another profitable year. Earnings were tempered by an unfavorable currency exchange rate with the United States, Perfect Fry's largest single market. However, despite the exchange rate challenge, net earnings for Fiscal 2003 were an encouraging \$324,318 or three cents a share, compared with \$366,784 or four cents a share in Fiscal 2002.

We can credit our solid revenue performance to the continuing benefits from the Company's marketing and sales infrastructure which experienced its first full year in Fiscal 2002. This past year, the enriched marketing and sales platform was further strengthened by the introduction of expanded sales support relationships with a number of significant players in the food industry.

Perfect Fry also maintained its commitment to the development of both its current and new markets around the world. For example, the Company was represented at a range of food industry sales and promotion events in North American markets as well as by actively promoting Perfect Fry at selected food industry trade shows in key offshore international cities such as Kuala Lumpur, Malaysia; Bangkok, Thailand; Sydney, Australia, and Cologne, Germany.

During Fiscal 2003, the Company developed new relationships and expanded existing relationships with several key sectors of the food industry. These agreements with a range of large companies in the food industry will support the further development of Perfect Fry's aggressive sales and sales support initiatives began in Fiscal 2002. These win-win-win agreements provide attractive sales incentives for our distributors while also providing buyers of Perfect Fryers with incentive-based exposure to food products and introducing suppliers to potential new customers. Perfect Fry intends to continue to grow this already-extensive international network and further develop its proven valuable support for the Company's marketing and sales initiatives.

Through extensive customer research, we have proven that most fryers are purchased after the prospective buyer has had an opportunity to see the fryer and understand what benefits it can bring to their business. As a result, we have introduced a number of programs this year to facilitate those opportunities, such as a Distributor Rent to Own Financing program, a Trade Show rental program and a Demo Financing program. These programs have been very well received, and are achieving their purpose.

During the year, the Company introduced a new model of the Perfect Fryer that is designed specifically to address the requirements of offshore international markets. These markets require deep fryers with a different configuration than our main production models. Early sales results are encouraging, as these markets were already anticipating this product as a result of sales promotion work undertaken by the Company primarily through trade shows during the year.

We also worked diligently on a new counter-top product that offers a solution for the convenience store fast food market. This compact, heated display merchandiser keeps cooked food hot and fresh, and can be adapted for either counter service or self-serve applications. The two-layer display case is designed to complement the Company's popular Perfect Fryer. Production and sales are scheduled to begin in 2004.

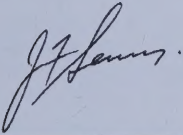
A third product is in the design stage and we anticipate it will be ready for market in Fiscal 2004.

Letter from the Chairman and President (contd.)

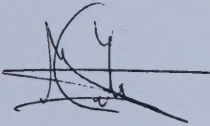
Perfect Fry's ongoing skill in developing products that can take advantage of identified markets, such as the new countertop heated display case and the offshore model of the Perfect Fryer, are a direct result of the Company's vigorous research and development program and the considerable talent of the employees involved. We are fortunate to have such creative employees able to efficiently turn market opportunities into market-attractive products.

We wish to express our deep appreciation to the employees of Perfect Fry for their outstanding support in a demanding year and for handling so very well the preparations for the Company's relocation to its new headquarters and manufacturing facility. In addition, to be commended are the significant efforts put forth during the year by many employees that have helped to achieve one of Management's key goals - to continuously improve our internal efficiencies and practices. We are blessed with an extraordinary team. We wish to express our thanks also to the Board of Directors for their continuing support, encouragement and guidance, and for their willingness to share so generously with Perfect Fry their considerable talent and business experience.

On behalf of the Board,



Jack Senior
Chairman



Gary Calderwood
President and CEO

March 2, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY of FINANCIAL PERFORMANCE

(\$ in 000's – except per share amounts)

	Quarterly - 2003				Total Year – ending October 31			
	Q1	Q2	Q3	Q4	2003	2002	2001	2000
Revenue	\$734	\$1,196	\$887	\$876	\$3,693	\$3,586	\$2,460	\$2,594
Operating	\$682	\$994	\$791	\$675	\$3,142	\$3,041	\$2,283	\$2,128
Non-Operating	\$45	\$50	\$60	\$72	\$227	\$178	\$414	\$288
Net Earnings	\$7	\$152	\$36	\$129	\$324	\$367	(\$237)	\$178
Earnings per share	\$0.00	\$0.02	\$0.00	\$0.01	\$0.03	\$0.04	(\$0.02)	\$0.02

Founded in 1985, the Company manufactures and markets state-of-the-art counter-top deep fryers, accessories and other peripherals. Perfect Fry's markets now extend around the world and encompass the fast-food retail industry specializing in popular, tasty deep fried foods at snack bars, food kiosks, sport & recreation outlets, concession stands and convenience stores.

The Perfect Fryer is highly efficient, compact and requires no external ventilation systems. It incorporates the most advanced built-in air filtration and fire prevention systems available in the industry. Sales of the Perfect Fryer and its complementary products continue to grow rapidly in North and South America, Europe, Australia, Asia, and the Middle East.

REVENUE

Perfect Fry continued to experience record sales during Fiscal 2003, achieving total revenues of \$3,693,178, which is 3.0% higher than Fiscal 2002 record revenue of \$3,585,948.

The Company continues to build on its largest market, the U.S., by enhancing the focused marketing and sales initiatives that were started during Fiscal 2002. The number of fryers sold to the U.S increased during Fiscal 2003. This increase, however, was offset by the rapid strengthening of the Canadian dollar, causing revenue recorded for these sales to be slightly down (-2.6%).

One noteworthy item is that International sales have surpassed Canadian sales for the first time in the history of the Company. We have been working over the last couple of years to increase activity outside North America by setting up export agents and increasing International travel.

	Years ended October 31		
	2003	2002	% change
USA	\$2,270	\$2,329	-2.6%
Canada	\$535	\$762	-29.8%
International	\$798	\$479	+66.0%
Other	\$90	\$16	
Total Revenue	\$3,693	\$3,586	+3.0%
Expenses – Operating	\$3,142	\$3,041	+ 3.3%
Operating Margin	\$551	\$545	+ 1.1%
Operating Margin as % of Total Revenue	14.9%	15.2%	

We know that the vast majority of our Perfect Fry owners purchased after seeing a fryer in operation. To further enhance brand awareness in the industry, a number of deferred pay programs were offered. The first is the Distributor Rent to Own Finance program, designed to encourage distributors to maintain a rental fleet of fryers to offer to potential buyers; the second is the Tradeshow Rental program, where food manufacturers can rent a fryer for their tradeshow season; the third is the Demo Machine Finance program, where distributors are encouraged to place units into local food brokers, distributors and dealers. All of these programs are aimed at increasing visibility of our equipment and giving potential buyers an opportunity to see what the fryer can do for their businesses. Only credit-qualified distributors and food manufacturers may utilize these programs.

MANAGEMENT DISCUSSION AND ANALYSIS (con't)

REVENUE (contd.)

Finally, by acquiring the new property in January 2003, the Company augmented its revenue by renting the majority of the premises back to the seller until December 1, 2003. The result is that Other Income has risen from \$16,003 to \$90,354 during Fiscal 2003. Even after the seller vacates the premises, rental of excess capacity will continue for the foreseeable future and will bring in monthly revenue which offsets almost half of our monthly mortgage payment.

EXPENSES

During Fiscal 2003 operating expenses (including U.S. marketing initiatives) increased slightly (3.3%) from \$3,041,262 in Fiscal 2002 to \$3,141,520 reflecting the Company's increased sales activity. The Company continued developing new markets by conducting several marketing tours in Canada, the United States, Europe and Asia while also participating in selected food industry trade shows in these regions.

Brand awareness for Perfect Fry means the fryer needs to be seen in operation rather than just getting the name better known. Consequently, we have chosen to reduce expenditures in print advertising and use the funds to support efforts to get equipment in front of potential customers. Particularly with potential large accounts, these expenditures include offering the use of a demo fryer for free for a trial period, traveling to clients, freight costs, and making presentations.

While the Canadian dollar has grown stronger during Fiscal 2003, adversely affecting net earnings, the Company has a partial "natural hedge" as many of its U.S.-based expenses are also in U.S. dollars: the U.S. marketing team, advertising, trade shows and components. Management has decided that this is the most effective method of dealing with foreign currency translation risk and so has chosen not to use derivatives.

A new model of fryer was introduced to the international markets, primarily destined for Asia and Europe, which carries the CE mark. This is the most recognized mark outside of North America. To support the introduction of this new fryer, additional expense for travel and trade show participation was required. We believe these expenditures were heavier than those expected to be incurred next year, as many of the international trade shows take place every second year.

We are proud to report that warranty expense decreased by approximately one-third this year over last year, a result of vigilant attention to design and quality assurance.

Our insurance premiums rose by about one third in Fiscal 2003 over Fiscal 2002, something experienced by many companies recently. Helping to offset this increase, the amount of interest paid on our bank credit facility was reduced.

NET EARNINGS

Net Earnings of \$324,318 were lower by \$42,468 than Fiscal 2002 Net Earnings of \$366,786, which had set a new record for the Company. Developing the international markets has required time and expense, and has contributed to the overall reduction in net earnings this year over last year. Also contributing to the reduction in net earnings was increased quantity discounts given to distributors, as orders for minimum quantities occurred more frequently this year.

The Operating Margin (Revenues less Operating Expenses – including U.S. Marketing Initiatives) improved slightly (1.1%) from \$545K to \$551K. It remained at approximately the same level between the two fiscal years – 14.9% vs. 15.2% last year as a percentage of Total Revenues.

MANAGEMENT DISCUSSION AND ANALYSIS (contd.)

LIQUIDITY AND CAPITAL RESOURCES

During Fiscal 2003, the Company bought land and an 18,000 square ft. building for \$1,073,355 to house its growing manufacturing facilities and its head office. The purchase was financed by an \$806,250 mortgage loan, with the balance coming from general corporate funds. The current portion (i.e., repayable within one year) of the Company's long term debt sits at \$27,235.

Management's vision of continuously improving our internal efficiencies and practices is coming to fruition. By continuing to use the resources we have in-house, the quality of management reporting is ever increasing through information system design and management. These valuable reports allow us to make better purchasing decisions, therefore managing inventory levels more effectively, and freeing up larger amounts of cash over the last few years. Having this cash available has allowed us to reduce our cost of short-term financing, provided us the ability to offer the new deferred pay programs as outlined above, and allowed us to purchase the new land and building.

The mortgage loan is secured by the land and building, and it is management's intention to repay the mortgage over 20 years. The term of the current 5.43% mortgage will mature on March 1, 2004. During the first part of 2004, a renewal was signed for a 4.43% mortgage that will mature on March 1, 2005.

Current accounts receivable for Fiscal 2003 of \$688,582 were at about the same level as the Fiscal 2002 of \$696,012. The deferred pay programs (described above) during Fiscal 2003 resulted in approximately 30% of the current accounts receivable being longer-term in nature than our standard Net 30 day payment terms, and so we expect our accounts receivable turnover ratio to decrease in the future. The long term portion of accounts receivable which becomes due after one year was a modest \$18,521.

Inventories have increased by 24% from \$674,404 to \$837,703 as the Company is preparing for a short period of suspended production during the relocation to the new building in the first quarter of 2004. However, as indicated during Fiscal 2003, we felt that the inventory level of Fiscal 2002 was at the lower limit of our "comfort zone". As many of our components are custom, longer lead times are required by suppliers than if the component was simply "off-the-shelf". To address this risk, we place blanket orders, and plan to have at least one month's supply of components on hand in case of unexpected delays, hence, the rise in inventory level in Fiscal 2003 from Fiscal 2002 signifies a return to what we consider optimal inventory levels.

The Company's liquidity position as measured by the current ratio (current assets divided by current liabilities) is at a comfortable 4.8 at the end of the Fiscal 2003 compared to 7.4 at the end of the previous year and 2.8 in the year before.

It is expected that operating cash flows will amply support future growth and capital expenditures of the Company. In addition, the Company also has in place an operating bank credit facility of \$600,000.

OUTLOOK

Perfect Fry has been investing in deferred development costs, primarily in the research and design of three new products. In late Fiscal 2003 a specially-designed Perfect Fryer bearing the CE mark went into distribution, and is destined primarily for the European and Asian markets which have different requirements for a deep fryers than does North America. This fryer has been received very well so far, and has opened discussions with potential customers in a number of new markets, including Japan, Norway and Sweden.

The second new product will be introduced to the North American market in the first half of Fiscal 2004 - a heated display case that will be both a companion to the Perfect Fryer and offer solutions to the convenience store fast food industry. The new product is a counter-top merchandiser that would keep prepared food hot and fresh and could serve either as a heated display case or self-serve unit.

A third product is expected to be ready for the market during Fiscal 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (contd.)

OUTLOOK (CONTD.)

After piloting the deferred pay programs to Canadian distributors in the first half of Fiscal 2003, these programs were extended to include the U.S. during the third quarter. These programs have shown promising initial results in the U.S., and the Company expects that they will continue to ramp-up in the U.S. during Fiscal 2004 to contribute to the Company's growth and achieve the goal of giving more potential buyers the opportunity to see the fryer for themselves.

The record revenues achieved recently have come as a result of the Company's marketing initiatives began in Fiscal 2002 and continued through Fiscal 2003. As well, the Company has just enhanced its ability to manufacture and deliver Perfect Fry products by acquiring a building with more space than in the previous leased facility. We expect to continue to leverage our marketing and manufacturing infrastructure and to continue in our upward trend in revenues and profitability.

FORWARD LOOKING STATEMENTS

Certain comments in this Management's Discussion and Analysis and elsewhere in this Annual Report contain forward looking statements which are based on the Company's current expectations and assumptions. These are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks include, but may not be limited to, general business and economic conditions, currency fluctuations, unforeseen political events in or actions by countries where the Company conducts business, and competitive actions.

PERFECT FRY CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2003 and 2002

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

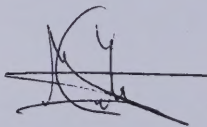
Management is responsible for the preparation of the Company's consolidated financial statements. Management believes that the financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial condition and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in the Company's consolidated financial statements amounts based on estimates and judgements that it believes are reasonable under the circumstances.

The independent auditors appointed by the shareholders of the Company have audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and they provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Committee which meets with financial management and the independent auditors to review accounting, auditing, internal accounting controls and financial reporting matters.



Jack F. Senior
Chairman of the Board



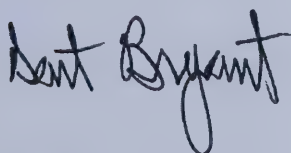
Gary G. Calderwood
President and CEO

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Perfect Fry Corporation as at October 31, 2003 and 2002 and the consolidated statements of operations and retained earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "Kent Bryant". The signature is fluid and cursive, with the first name "Kent" and last name "Bryant" clearly distinguishable.

Dart Bryant Chartered Accountants

Calgary, Canada
February 20, 2004

PERFECT FRY CORPORATION

CONSOLIDATED BALANCE SHEETS OCTOBER 31, 2003 AND 2002

ASSETS

	2003 \$	2002 \$
CURRENT ASSETS		
Cash and cash equivalents	35,651	288,068
Accounts receivable (Note 2)	688,582	696,012
Inventories (Note 3)	837,703	674,404
Prepaid expenses	11,851	22,770
	<u>1,573,787</u>	<u>1,681,254</u>
ACCOUNTS RECEIVABLE, non-current (Note 2)	18,521	-
PROPERTY, PLANT AND EQUIPMENT (Note 4)	1,307,917	155,010
DEFERRED PRODUCT DEVELOPMENT COSTS (Note 5)	<u>803,558</u>	<u>676,549</u>
	<u>3,703,783</u>	<u>2,512,813</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

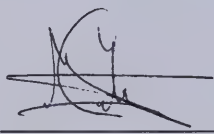
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	300,620	227,026
Current portion of long term debt (Note 7)	<u>27,235</u>	<u>-</u>
	327,855	227,026
LONG TERM DEBT (Note 7)	765,823	-
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	1,461,471	1,461,471
Retained earnings	<u>1,148,634</u>	<u>824,316</u>
	<u>2,610,105</u>	<u>2,285,787</u>
	<u>3,703,783</u>	<u>2,512,813</u>

Commitment (Note 9)

ON BEHALF OF THE BOARD:



Director



Director

PLEASE SEE NOTES

PERFECT FRY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
YEARS ENDED OCTOBER 31, 2003 AND 2002

	2003 \$	2002 \$ (Reclassified Note 1)
REVENUE	3,693,178	3,585,948
OPERATING EXPENSES		
Cost of goods, selling and administration	2,711,170	2,629,281
US marketing initiatives	<u>430,350</u>	<u>413,782</u>
Total operating expenses	3,141,520	3,043,063
NON-OPERATING EXPENSES		
Interest		
Long term debt	27,232	-
Other	9,486	19,406
Amortization		
Property, plant and equipment	66,821	42,521
Deferred product development costs	37,217	115,973
Foreign exchange loss	<u>86,584</u>	<u>(1,801)</u>
Total non-operating expenses	<u>227,340</u>	<u>176,099</u>
	<u>3,368,860</u>	<u>3,219,162</u>
NET EARNINGS	324,318	366,786
RETAINED EARNINGS, beginning of year	<u>824,316</u>	<u>457,530</u>
RETAINED EARNINGS, end of year	<u><u>1,148,634</u></u>	<u><u>824,316</u></u>
EARNINGS PER SHARE (Basic and Diluted – Note 8)	<u>.03</u>	<u>.04</u>

PLEASE SEE NOTES

PERFECT FRY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2003 AND 2002

	2003 \$	2002 \$
CASH PROVIDED BY (USED IN):		
OPERATIONS		
Net earnings	324,318	366,786
Items not affecting cash		
Amortization of property, plant and equipment	66,821	42,521
Amortization of deferred product development costs	37,217	115,973
	<u>428,356</u>	<u>525,280</u>
Changes in non-cash working capital		
Accounts receivable	7,430	(326,388)
Inventory	(163,299)	636,198
Prepaid expenses	10,919	(18,068)
Accounts payable and accrued liabilities	73,594	(110,738)
	<u>(71,356)</u>	<u>181,004</u>
	<u>357,000</u>	<u>706,284</u>
INVESTING		
Additions to accounts receivable, non-current	(18,521)	-
Additions to property, plant and equipment	(1,219,728)	(42,443)
Additions to deferred product development costs	(164,226)	(109,843)
	<u>(1,402,475)</u>	<u>(152,286)</u>
FINANCING		
Proceeds from long term debt	806,250	-
Repayment of long term debt	(13,192)	-
	<u>793,058</u>	<u>-</u>
INCREASE (DECREASE) IN CASH POSITION	(252,417)	553,998
CASH (BANK INDEBTEDNESS), beginning of year	<u>288,068</u>	<u>(265,930)</u>
CASH, end of year	<u><u>35,651</u></u>	<u><u>288,068</u></u>
Note:		
Interest paid	36,718	19,406
Income taxes paid	-	-

PLEASE SEE NOTES

PERFECT FRY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 2003 AND 2002

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company and those of its two subsidiary companies (Perfect Fry Company Ltd. and Perfect Fry Holdings Ltd.), both of which are wholly-owned.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short term market investments with original maturities less than three months.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined using the weighted average method and includes material, direct labour and overhead.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is provided as follows:

Building	4% declining balance method
Office and equipment	20% to 30% declining balance method
Leasehold improvements	Straight-line over the term of the lease

Annually, or more frequently as circumstances require, the Company performs evaluations to assess the recoverability of all property, plant and equipment.

Deferred Product Development Costs

Product development costs are expensed to operations unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized on a straight-line basis over ten years or over estimated units of sale. Research costs are expensed as incurred.

The value of the residual unamortized balance of deferred product development costs is assessed at least annually with reference to the related projected undiscounted cash flows.

Income Taxes

The Company utilizes the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

Basic and diluted earnings per share are calculated using the weighted average number of common shares outstanding during the year.

PERFECT FRY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)

YEARS ENDED OCTOBER 31, 2003 AND 2002

1. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses during the reporting period. In the consolidated financial statements of the Company, the most significant areas for which management is required to make estimates in the near term is in the assessment of the net realizable value of accounts receivables and inventories, the net recoverable value of property, plant and equipment and deferred product development costs and the assessment of the likely realization of future tax assets. Actual amounts could differ from those estimates.

Stock-based Compensation

The Company has one compensation plan as described in Note 8. No compensation expense was recognized for this stock option plan when the options were issued to employees and directors. Any consideration paid by employees and directors on the exercise of stock options is credited to share capital.

Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using the average rate for the month in which the transaction occurred. Balance Sheet monetary items are translated at the rate at the balance sheet date. All translation gains and losses are included in the determination of net earnings.

Basis of Revenue Recognition

Revenue is derived from the sale and service of the Company's patented counter-top deep fryers, filters, parts and accessories. Sales are recorded on ship date, and are made to approved distributors under terms of FOB factory, with payment terms ranging from 1 month to 24 months. Service revenue is recorded at the time the service is provided. Additional revenue is derived from the rental of excess building capacity and is categorized as other income (see Note 10).

Reclassification

Certain of the prior year amounts have been reclassified to conform with current year presentation.

2. ACCOUNTS RECEIVABLE

During the year, a deferred payment program was instituted for certain credit-qualified customers where payments are received in equal monthly payments over 12 months in the US and over 24 months in Canada.

	2003	2002
	\$	\$
Accounts receivable due within 12 months	688,582	696,012
Accounts receivable due within 12 to 24 months	18,521	-
	<u>707,103</u>	<u>696,012</u>

3. INVENTORIES

	2003	2002
	\$	\$
Finished goods	482,658	411,087
Parts	355,045	263,317
	<u>837,703</u>	<u>674,404</u>

PERFECT FRY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)
YEARS ENDED OCTOBER 31, 2003 AND 2002

4. PROPERTY, PLANT AND EQUIPMENT

	October 31, 2003		
	Cost	Accumulated	Net Book
	\$	Amortization	Value
		\$	\$
Land	400,000	-	400,000
Building	703,355	14,067	689,288
Office and equipment	536,785	327,521	209,264
Leasehold improvements	42,486	33,121	9,365
	<u>1,682,626</u>	<u>374,709</u>	<u>1,307,917</u>

	October 31, 2002		
	Cost	Accumulated	Net Book
	\$	Amortization	Value
		\$	\$
Land	-	-	-
Building	-	-	-
Office and equipment	420,412	278,123	142,289
Leasehold improvements	42,486	29,765	12,721
	<u>462,898</u>	<u>307,888</u>	<u>155,010</u>

5. DEFERRED PRODUCT DEVELOPMENT COSTS

	2003	2002
	\$	\$
Deferred product development costs	1,870,808	1,706,581
Accumulated amortization	1,067,250	1,030,032
	<u>803,558</u>	<u>676,549</u>

6. BANK INDEBTEDNESS

The Company has access to a bank operating credit facility of \$600,000. Advances under this facility bear interest at prime plus .75% and are secured by all assets of the business.

PERFECT FRY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)
YEARS ENDED OCTOBER 31, 2003 AND 2002

7. LONG TERM DEBT

The mortgage payable is to the Community Credit Union and is amortized over a 20 year term. It is repayable in monthly amounts of \$5,487 which includes interest at 5.43%. Subsequent to the year end, the mortgage was renewed for a one year term, maturing March 1, 2005, and is repayable in monthly amounts of \$5,070 which includes interest at 4.43%. The mortgage is secured by the land and building (Note 4), an assignment of rents, a general security agreement over all other assets and an assignment of insurance.

	2003	2002
	\$	\$
Mortgage payable	793,058	-
Less: current portion	(27,235)	-
Long term debt	<u>765,823</u>	<u>-</u>

Principal repayments on the mortgage as follows:

	\$
2004	27,235
2005	27,486
2006	28,729
2007	30,028
2008	31,385
2009 and thereafter	648,195
	<u>793,058</u>

PERFECT FRY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)
YEARS ENDED OCTOBER 31, 2003 AND 2002

8. SHARE CAPITAL

Authorized

Unlimited number of preferred and common shares.

Issued and Outstanding

	2003	2003	2002	2002
Issued and Outstanding at beginning of year	9,788,656	\$1,461,471	9,788,656	\$1,461,471
Issued during the year	-	-	-	-
Issued and Outstanding at end of year	9,788,656	\$1,461,471	9,788,656	\$1,461,471

Earnings per share

Options to purchase 370,000 common shares were outstanding during the year but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. The options were still outstanding at the end of year 2003.

	<i>Income (numerator)</i>		<i>Shares (denominator)</i>		<i>Per share amount</i>	
For the year ended Oct 31	2003	2002	2003	2002	2003	2002
Basic earnings per share	324,318	366,786	9,788,656	9,788,656	\$0.03	\$0.04
Diluted earnings per share	324,318	366,786	9,788,656	9,788,656	\$0.03	\$0.04

Options

Under the stock option plan of the Company, options may be granted to directors, officers and employees for the purchase of common shares. The following options have been granted pursuant to the stock option plan. Of the options outstanding, 215,000 were issued to directors and officers of the Company.

Options	Options Issued and Outstanding		Weighted Average Exercise Price	
	2003	2002	2003	2002
Outstanding at beginning of year	370,000	505,000	\$.30	\$.27
Options forfeited	-	(135,000)	-	.20
Options exercised	-	-	-	-
Outstanding at end of year	370,000	370,000	.30	.30
Options exercisable at year-end	370,000	370,000		
Options held by directors and officers	215,000	215,000		

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding at Oct. 31/03	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at Oct. 31/03	Weighted Average Exercise Price
\$0.30	370,000	0.67	\$0.30	370,000	\$0.30

PERFECT FRY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)

YEARS ENDED OCTOBER 31, 2003 AND 2002

9. COMMITMENT

The Company is committed to future annual operating lease payments for facilities, not including operating costs as follows:

	\$
2004	13,105

10. SALES

The Company's operations are conducted in one business segment however, the products and services are sold in a number of very different geographic markets. A summary of the Company's revenue by geographic area follows:

Revenue	2003	2002
Sales and service		
USA	\$2,270,466	\$2,328,528
Canada	535,033	761,831
International	797,325	479,586
	3,602,824	3,569,945
Other income	90,354	16,003
	<u>\$3,693,178</u>	<u>\$3,585,948</u>

11. FINANCIAL INSTRUMENTS

Financial instruments of the Company include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long term debt.

Fair Values- The fair values of current financial instruments are established to approximate their carrying values due to their short term maturities. The fair values of non current financial instruments are estimated using discounted cash flow analysis based on the Company's current borrowing rates. There is no material difference between the carrying value and the fair value for long term accounts receivable or long term debt.

Credit Risk- All credit risk is within the food service industry and is spread among many customers in many countries. The Company performs ongoing credit evaluations of the customers and maintains allowances for potential credit losses which, when realized, have been within the range of management expectation.

Foreign Exchange Risk- The Company earns a significant portion (62% in 2003, 66% in 2002) of its operating revenues in US dollars and as such, variations in exchange rates effect the Company's operating and financial results. The Company does not use derivative instruments.

PERFECT FRY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)
YEARS ENDED OCTOBER 31, 2003 AND 2002

12. INCOME TAXES

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the differences is as follows:

	2003	2002
	\$	\$
Net earnings	324,318	366,786
Combined Federal and Provincial income tax rate	36.75%	39.25%
Computed income tax provision	119,186	143,780
Increase (decrease) resulting from		
Change in valuation allowance (including rate changes)	(121,875)	(154,620)
Non-deductible amortization and expenses	8,250	8,156
Other	(5,561)	2,684
Net provision for income taxes	-	-

The Company has non-capital losses for income tax purposes which may be carried forward to reduce taxable income in future years (subject to confirmation by income tax authorities). The losses expire as follows:

	2003	2002
	\$	\$
2005	104,500	104,500
2007	-	60,500
2008	66,000	67,000
2009	9,500	9,500
2010	10,000	-
	190,000	241,500

Significant components of the Company's future tax assets as of October 31, 2003 at 36.75% and 2002 at 39.25% are as follows:

	2003	2002
	\$	\$
Operating losses carried forward	70,000	94,500
Tax values of assets in excess of accounting values	521,000	708,000
Capital losses carried forward	156,000	167,000
Investment tax credits carried forward	171,000	128,500
Total future tax assets	918,000	1,098,000
Valuation allowance	(918,000)	(1,098,000)
Net future tax assets	-	-

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Jack F. Senior, Chairman
President,
Speedi Gourmet Ltd.
Vancouver, BC

Gary G. Calderwood
President and CEO,
Perfect Fry Corporation
Calgary, AB

Gordon Sigurdson
President,
Harlan Fairbanks Co Ltd.
Winnipeg, MB

Vic Walls
President,
Border Paving Ltd.
Red Deer, AB

LEGAL COUNSEL

Fraser Milner Casgrain
30th Floor, 237 - 4 Ave SW
Calgary, AB T2P 4X7

OFFICERS

Gary G. Calderwood
President, CEO,
Secretary-Treasurer

Sharon L. Haasdyk
Chief Financial Officer

AUDITORS

Dart Bryant
Chartered Accountants
404 - 13th Avenue NE
Calgary, AB
T2E 1C2

TRANSFER AGENT

Computershare Trust
Company Of Canada
600, 530 8th Ave SW
Calgary, AB
T2P 3S8

INTERNATIONAL HEAD OFFICE

9298 Horton Road SW
Calgary, AB, Canada
T2V 2X4
Telephone: (403) 255-7712
Fax: (403) 255-1725
1-800-265-7711
E-Mail: invest@perfectfry.com
Internet: www.perfectfry.com

INVESTOR RELATIONS

Gary G. Calderwood

STOCK EXCHANGE LISTING

TSX Venture Exchange,
Symbol: PNM

As of October 31, 2003 there
were 9,788,648 shares issued
and outstanding.



PRINTED IN CANADA
COPYRIGHT 2003